

## Prospect Capital Advisors, LLC

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This brochure provides information about the qualifications and business practices of Prospect Capital Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at the telephone number and/or e-mail address above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or any state securities authority.

Prospect Capital Advisors, LLC is a registered investment advisor. Registration of an investment advisor does not imply any level of skill or training. The verbal and written communications of an investment adviser provides you with information you need to determine whether to hire or retain the advisor.

Additional information about Prospect Capital Advisors, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2: MATERIAL CHANGES

This Brochure was prepared for Prospect Capital Advisors, LLC's initial registration with the SEC. The following are material changes from our Brochure dated March 30, 2015:

- Item 19 is no longer applicable;
- Brochure Supplement is no longer required to be filed with the other parts of the ADV and is maintained separately.

In the future, this Item will discuss only specific material changes that are made to the Brochure. Please contact us if you would like a copy of our updated Part 2A.

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## ITEM 4: ADVISORY BUSINESS

### Who We Are

Prospect Capital Advisors, LLC (referred to as "we," "our," "us," or "PCA") is currently registered as an investment adviser with the SEC. From January 2001 to June 2015, PCA was registered with the State of California, Department of Business Oversight. Our principal owner and officer is Daniel W. Mendoza.

### Services We Offer

We serve as the general partner and investment adviser to Prospect Advisors, L.P. and Prospect Advisors QP, LP (collectively, the "Funds"), which are privately-placed pooled investment vehicles. Interests in the Funds are offered to certain qualified Investors ("you" or "Investor(s)") as discussed herein.

We provide investment services to the Funds. We also provide investment services for other clients in separately managed accounts, who are not invested in the Funds (referred to as "you" or "Client(s)" or "SMA(s)" as the context may require).

The Funds are long/short funds investing primarily in equities. The Funds' goal is to generate absolute returns, primarily through long and short investments in publicly-traded domestic equities, seeking to protect and grow assets in all market environments.

PCA's investment philosophy is oriented towards a microeconomic approach to investment selection and risk minimization. PCA makes investment decisions, and attempts to reduce company risk, through in-depth analyses of portfolio companies.

The Limited Fund Documents, Confidential Offering Memorandum and Subscription Agreement (collectively, the "Fund Documents") for the Funds impose no limits on the types of securities or other instruments in which the Funds may take positions, the type of positions it may take, the concentration of its investments, or the amount of "leverage" the Funds may employ. PCA has broad discretion to employ a wide variety of investment techniques, even if they involve changes in the investment approach initially anticipated.

The Funds' investments are tailored to comply with the investment guidelines disclosed in the Fund Documents. Each potential Investor receives a complete set of Fund Documents prior to investing in the Funds.

The investment strategy employed for SMAs is similar to that of the Funds. By signing PCA's Investment Advisory Agreement (the "Agreement"), such Clients grant PCA broad discretion to employ an investment strategy that meets the needs of the particular SMA Client.

While the Fund Documents impose no limits or restrictions on investing in certain securities or types of securities, PCA may be willing to accept such restrictions in limited and specific instances on SMAs at the direction of such Clients.

We do not provide portfolio management services to a wrap fee program.

## Assets Under Management

As of April 30, 2015, we have \$290,487,015 million in discretionary regulatory assets under management. We do not manage assets on a non-discretionary basis.

## ITEM 5: FEES AND COMPENSATION

### Fees and Compensation

Typically, the fees we receive for managing the Funds are the same as those we receive for managing a SMA Client. In both cases, we receive both an asset-based fee and an incentive allocation or incentive fee. The asset-based fee is 1% per year, billed in quarterly installments. This fee is billed quarterly in advance, based on the value of the assets under management as of the beginning of the calendar quarter. The incentive allocation/fee is calculated as of December 31 each year. When profits for the current period exceed the unrecouped net losses for prior periods, we will receive an incentive allocation/fee of 20% of the profits generated. Solely for purposes of computing this fee, net profits and net losses include unrealized gains and losses. If you withdraw capital from the Funds or your SMA, the incentive allocation or performance fee for the amount withdrawn will be calculated as of the withdrawal date.

In rare instances, at the sole discretion of PCA, we may admit Investors into the Funds who are not qualified to pay an incentive allocation. For those Investors, we will charge an asset-based fee of 1%, with no incentive allocation. This asset-based fee will be billed on the same schedule as disclosed above.

We will not manage money on a SMA basis for Clients who are not qualified to pay an incentive fee.

For SMAs, we may negotiate a lower asset-based or incentive fee with you.

In order to pay an incentive allocation/fee you must meet certain requirements. Effective September 19, 2011, typically, you must meet one of the following criteria:

- You have a net worth (or together with your spouse have a net worth) of at least \$2 million.
- You have at least \$1,000,000 invested with us.

Investors and Clients with initial contributions prior to September 19, 2011, may continue to rely on the exemption available at the time of initial investment.

The Agreement and Fund Documents provide additional qualifications standards. All incentive allocation/fees will be made/charged in a manner that complies with applicable rules and regulations, including SEC Rule 205-3.

Incentive allocation/fee arrangements could create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of the arrangement. In some circumstances, we may receive increased compensation as a result of unrealized appreciation as well as realized gains.

For SMAs, we generally request that you provide authorization for us to deduct our fees directly from your investment account. Important information about the deduction of management fees:

- You must provide authorization for us to deduct fees by initialing the appropriate section of our Agreement.
- You will receive a detailed invoice each quarter which outlines our fees and how they are calculated at the same time we request payment from the custodian.
- You will receive a statement from your custodian which shows your holdings.
- You are responsible for reviewing the accuracy of the fees being billed, as the custodian will not do so.

You may elect to pay by check rather than having payment deducted directly from your account.

You may terminate our management of your SMA by providing 30 days written notice. We will prorate the advisory fees earned through the termination date and send you a refund of the prepaid, unearned portion of your fee. For accounts that pay an incentive fee, we will calculate the incentive fee due, offset it against the refund for the asset-based fee, and send an invoice showing the amount due to us or owed to you. We process refund payments within 30 days of the termination date and, if applicable, will send you a check or refund your investment account.

Investors in the Funds may make withdrawals as of the last day of any calendar quarter by giving us 30 days written notice.

## Other Costs Involved

In addition to our advisory fees discussed above, expenses associated with making investments on behalf of Clients and the Funds will also be incurred. These fees include:

- Management fees for ETFs and mutual funds. These are fees charged by the managers of the ETF or mutual fund and are a portion of the expenses of the ETF or mutual fund.
- Brokerage costs and transaction fees for any securities or fixed income trades. These are generally charged by your custodian and/or executing broker.

- Audit costs and third party administration costs for the Funds.

Additional information about brokerage costs and services is provided in "Item 12: Brokerage Practices." Investors should also refer to the Fund Documents for details on the expenses associated with investing in the particular Fund.

We believe the fees mentioned above are competitive; however, you may be able to obtain similar services from other sources at a lower price.

## ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

We receive an incentive/allocation fee for the Funds and all SMAs as described in "Item 5: Fees and Compensation."

## ITEM 7: TYPES OF CLIENTS

We provide investment advice to the Funds, which are pooled investment vehicles. In addition, we provide advice to other Clients that may include high net worth individuals, trusts, businesses and pension or profit sharing plans.

Generally Investors in the Funds are required to maintain a minimum of \$500,000 invested with the Funds. We require a minimum investment commitment of \$3,000,000 to manage assets in a SMA. These minimums may be waived at our sole discretion.

## ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

The methods of analysis and investment strategies for SMAs will be identical to the Funds described below, and consistent with PCA's typical investment strategy, unless otherwise directed by the SMA Client.

PCA seeks capital appreciation in the Funds and will invest primarily in publicly traded securities including common stocks, preferred stocks, stock warrants and rights, bonds, debentures, convertible securities and other debt obligations, as well as options to purchase and/or sell securities and options on stock market indexes. We may also engage in short sales of securities.

Portfolios managed by PCA will not necessarily represent a broad diversification of investments among particular issuers, industries, geography or types of securities. We may invest in restricted securities and other securities for which there is no public market, but will not invest more than 10% of the Funds' assets (computed at the time the investment is made) in such securities.

We may buy securities on margin and arrange with banks, brokers and others to borrow money in order to employ leverage when PCA deems such action appropriate.

PCA's investment philosophy is oriented towards a microeconomic approach to investment selection and risk minimization. We make investment decisions and attempt to reduce company risk by conducting an in-depth analysis of the companies in which we invest. These analyses typically involve evaluating a company's management by meeting with the company's managers, assessing management's strategy for the company and analyzing the company's finances in order to test its ability to meet its goals. PCA believes market risk can be reduced through the use of short positions, with the relative magnitude of our Funds' long and short positions being weighted to reflect PCA's perception of investment opportunities, both long and short. PCA expects to focus on small and mid-capitalization growth companies.

General Economic, Governmental and Market Conditions. PCA's investments may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, developments in governmental regulation and national and international political circumstances. These factors may affect the success of the businesses in which PCA's Funds' portfolio companies are engaged as well as the market for the securities the Funds hold. Unexpected volatility or illiquidity could impair the Funds' profitability or result in losses.

Reliance on Key Personnel. PCA's operations are substantially dependent upon the skill, judgment and expertise of Daniel Mendoza and the employees of PCA. The death, disability, departure or other unavailability of any key personnel could have a material and adverse effect on the Funds and PCA.

Concentration of Investments. The Fund Documents do not limit the amount of capital PCA may commit to any single investment, industry or sector on behalf of the Funds. While we will attempt to spread capital among a number of investments, they will not be as diversified as many other investment funds. We generally will focus the Funds' investments on a relatively small number of positions, each representing a relatively large portion of the Funds' capital. We may at times have a relatively large portion of the Funds' capital exposed to a particular industry or market sector. Losses in one or more large positions, or a downturn in an industry or market sector in which the Funds are concentrated, could materially adversely affect the Funds' performance in a particular period and could have a materially adverse effect on the Funds' overall financial condition.

Timing of Gains and Losses; Volatility. Some of PCA's investments on behalf of the Funds may be positions the Funds must hold for significant periods before the success or failure of the investment becomes apparent or any gains can be realized. It may take longer for successful investments to realize their potential than for unsuccessful ones to reveal their weaknesses. Market prices of portfolio positions may be expected to fluctuate significantly over the Funds' holding periods, causing the Funds' performance to be volatile over the short term.



Short Selling. PCA will sell securities short as a regular part of our investing activities. We may do so in order to profit from declines in the prices of securities we consider overvalued, or to hedge long positions.

In a short sale, PCA sells securities we do not own for the Funds' portfolio, in the expectation that the market price will decline and the Funds will be able to buy replacement securities later at a lower price. To accomplish this, PCA borrows the securities from a broker or other third party on behalf of the Funds. We "close" the position by "returning" the security (buying a replacement security on the lender's behalf). This "return" obligation does not typically have a specified "maturity" date and the lender generally may require replacement of the securities whenever it chooses. A short sale theoretically involves the risk of unlimited loss: the price at which PCA must buy "replacement" securities could increase without limit. PCA's Funds may experience losses on short positions that are not offset by gains on long positions. As collateral for its return obligation, PCA must leave the proceeds of its short sales with the lender—generally, a Prime Broker. Ordinarily all the Funds' assets held by the Prime Broker will serve as collateral not only for the Funds' short sale return obligation, but also for any other credit the Prime Broker extends and any other obligations the Funds owes the Prime Broker. If the amount of the Funds' return obligation were to increase significantly due to increases in a short-sold security's price, or if the value of collateral were to decrease, the Funds could be required to deliver additional cash or other collateral to the Prime Broker. But, if substantially all the Funds' or Clients' assets were already serving as collateral, it is unlikely that the Funds would be able to meet such a demand, and the Prime Broker would likely cause the Funds to "buy in" or "close" some or all of its short positions. Such a "buy-in" could well be at a time and on terms that are adverse to the Funds. Less dramatically, market-driven increases in short-sale-related liabilities and reductions in collateral value could also reduce PCA's ability to effect transactions or distribute cash to fund Limited Partner withdrawals in the Funds. Lenders such as the Prime Broker have great discretion in their decisions regarding adequacy of collateral, and the Funds' short selling activities, and actions that depend on availability of assets not being relied on for collateral (e.g., distributing cash) could be curtailed, potentially significantly and without notice.

In 2008, regulators in the United States, the United Kingdom, and several other countries, significantly changed the regulations that govern short selling, settlements of short sale transactions, lending to facilitate short sales, disclosure of short positions, and other aspects of short selling activities. Those actions, taken on short notice, significantly affected some positions and some market participants, including through forced buy-ins under adverse circumstances and "double" buy-ins. Short selling practices have been and may remain the subject of political controversy and changes in short-selling-related regulations may continue to occur, again potentially with little notice. The Funds could suffer losses on short selling activities as a direct or indirect result of those changes, and its ability to use short selling as a part of its overall investment activities could be limited or made less effective or profitable.

Portfolio Leverage. PCA may leverage the Funds' investment positions by borrowing funds from securities brokers or dealers, banks, or others. We may also use derivatives to leverage the Funds' capital, as discussed below. Leverage increases both the possibilities for profit and the risk of loss. Borrowings are usually from securities brokers and dealers (primarily the Funds' Prime Broker) and are typically secured by the Funds' securities and other assets. Under certain circumstances, such a broker or dealer may demand an increase in the collateral that secures the Funds' obligations, and if the Funds are unable to provide additional collateral, the broker or dealer could liquidate assets held in the Funds' account to satisfy the Funds' obligations. Liquidation in that manner could have extremely adverse consequences, including sales at disadvantageous times and prices and the acceleration of tax consequences.

Limited Liquidity of Some Investments. Some of PCA's investments for the Funds, while publicly traded, may be relatively illiquid. That may be because a security is thinly traded or because the Funds' position in it is large in relation to the overall market for the security. We may own securities in the Funds' accounts that are relatively liquid when acquired but that become illiquid after we invest. We may not be able to liquidate illiquid securities positions if the need were to arise; rapid sales of such securities could depress the market value of those securities, reducing the Funds' profits, or increasing its losses, in the positions. In limited circumstances, PCA may cause the Funds to acquire a security position that is not immediately saleable in the public markets. The Funds generally would not do so unless PCA believed the position would be so small that valuation or liquidity issues would not have a material impact on the Funds and generally will not cause the Funds to invest more than 10% of its net assets (measured at the time of investment) in such securities. The value assigned to illiquid securities (including thinly traded securities) and large blocks of securities for purposes of determining Partnership Percentages and determining Net Profit and Net Loss may differ from the value the Funds is ultimately able to realize on those securities.

Leverage and Uncertainty in Portfolio Companies. PCA's investments on the Funds' behalf may include portfolio companies whose structures include significant leverage. That leverage could increase the exposure of those companies to adverse economic factor, such as rising interest rates, downturns in the economy or deteriorations in the companies' or their industries' condition. Our investments may also include companies that are distressed or have experienced difficulties. Such investments present additional risks: the Funds could lose its entire investment in a distressed company, could be required to accept cash or securities with a value less than the Funds' investment and could be prohibited from exercising certain rights with respect to such investment. Such investments may not show any returns for a considerable period, and the markets for securities the Funds own may be limited for extended periods or may disappear or fail to develop. Sales of securities held by the Funds may be dependent on the exercise of registration rights or the expiration of relevant securities law restrictions.

Hedging, Generally. Hedging strategies in general are usually intended to limit or reduce investment risk, but they can also be expected to involve transaction costs and may inherently limit or reduce the potential for profit. Hedges are often imperfectly inversely

correlated with the underlying exposure we seek to hedge and, to the extent that is the case, can subject the Funds to additional risk, if prices involved in the hedging position move against the Funds. PCA will not attempt to hedge all of the Funds' investment positions.

Small Capitalization Stocks. PCA expects to invest a significant portion of the Funds' assets (either directly or through derivatives such as options) in stocks of companies with relatively small market capitalizations. While PCA believes these stocks can provide significant potential for appreciation, they can involve higher risks than investments in stocks of larger companies. For example, prices of small-capitalization and even some medium-capitalization stocks are often more volatile than prices of large-capitalization stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to Investors) may be higher than for larger, "blue-chip" companies. In addition, thin trading in some small-capitalization stocks may make investments in those stocks less liquid.

Counterparty and Custody Risk. Financial institutions with which PCA does business, including the Prime Brokers or counterparties that hold PCA's assets as collateral could become insolvent. In particular, if a Prime Broker were to declare bankruptcy or become insolvent, we may not be able to recover all or a portion of its assets either permanently or for some years.

Effect of Substantial Withdrawals. Substantial Limited Partner withdrawals over a short period could require PCA to liquidate securities positions more rapidly than would otherwise be desirable, possibly reducing the value of the Funds' assets and/or disrupting our investment strategy. Among other things, such a reduction could impair our ability to take advantage of particular investment opportunities, and it would decrease the ratio of the Funds' income to its expenses. In addition, withdrawals or redemptions by Investors in other investment vehicles or accounts PCA or an affiliate manages, some of which may have more advantageous information and/or liquidity rights than those provided to Limited Partners, could adversely affect the value of the Funds' portfolio positions.

**All investments involve different degrees of risk, including the risk that the entire investment may be lost. You should be aware of your risk tolerance level and financial situation at all times. We cannot guarantee the successful performance of an investment and we are expressly prohibited from guaranteeing accounts against losses arising from market conditions.**

**The risks described above are not a complete list of risks involved with investing with PCA – specific risks and conflicts of interest associated with an investment are described in full detail in the Fund Documents and other materials accompanying the Agreement. Investors and Clients prospective Investors should carefully review the applicable documents for further information.**

## ITEM 9: DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose any material facts regarding any legal or disciplinary actions that would be material to your evaluation of the investment adviser and each investment adviser representative providing investment advice to you. We have no information of this type to report.

## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

We serve as the general partner and investment adviser to the Funds. We do not expect to be engaged to advise Investors as to the appropriateness of investing in the Funds, and we will not receive any compensation for doing so, or for selling interests in the Funds.

## ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

### Code of Ethics

We have adopted a set of enforceable guidelines (Code of Ethics), which describes unacceptable conduct by PCA and our employees (“Supervised Persons”). Summarized, this Code of Ethics prohibits us from:

- Placing our interests before yours,
- Using non public information gathered,
- Engaging in any act, practice or course of business that is, or might be considered fraudulent, deceptive, manipulative, or in violation of any applicable law, rule or regulation of a governmental agency.

Please contact us if you would like to receive a full copy of this Code of Ethics.

### Personal Trading for Supervised Persons

Although our policies and procedures generally prohibit Supervised Persons from trading in single-name stocks, exceptions may be made by the Chief Compliance Officer in certain circumstances. Further, there may be circumstances in which a Supervised Person owns the same securities as those owned by the Fund or a Client account. However, PCA does not generally permit Supervised Persons to trade in the same securities owned by the Fund or a Client account. Our Supervised Persons may invest directly in the Funds.

PCA addresses the potential for conflicts of interest in personal trading matters by requiring Supervised Persons to sign and adhere to the Code of Ethics and to report personal securities holdings and transactions to us.

## ITEM 12: BROKERAGE PRACTICES

### Selection of Brokers

In selecting brokers to execute portfolio transactions, we make a good faith judgment of about which broker would be appropriate. We take into consideration not only the available prices and rates of brokerage commissions, but also other relevant factors that may include (without limitation):

- Execution capabilities of the broker/dealer,
- research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis),
- custodial and other services provided by the broker/dealer that are expected to enhance our general portfolio management capabilities,
- Size of the transaction,
- Difficulty of execution,
- Operational facilities of the broker/dealers involved,
- Risk in positioning a block of securities, and
- Quality of the overall brokerage and research services provided by the broker/dealer.

When we select the broker/dealer for a transaction, we may cause you and/or the Funds to pay a higher commission for effecting a transaction than another broker/dealer would have charged for effecting that transaction. We do this if we determine in good faith that the amount of the commission is reasonable in relation to the value of the brokerage and research services provided by the broker/dealer. The determination is viewed in terms of either the particular transaction or our overall responsibilities with respect to you and the Funds.

### Aggregation of Orders

There are occasions on which portfolio transactions will be executed as part of concurrent authorizations to purchase or sell the same security for the Funds, a SMA and/or one or more of our Supervised Persons.

We may choose to block (aggregate) trades for your account with those of other Client accounts (including the Funds) and personal accounts of persons associated with PCA. When we place a block trade, all participants included in the block receive the same price per share on the trade. The price is calculated by averaging the price of all of the shares trade. Due to the averaging of price over all of the participating accounts, aggregated trades could be either advantageous or disadvantageous. Commission costs are not averaged. You will pay the same commission whether your trade is placed as part of a

block or on an individual basis. The objective of the aggregated orders will be to allocate the executions in a manner that is deemed equitable to the accounts involved.

Trades are typically allocated on a pari passu manner for all accounts in which PCA acts as general partner. If the trade is being allocated to a SMA, it is declared at the time the position is opened when a broker is given an order to execute the trade.

It is possible that different brokers would be handling the same trade for the Funds and a SMA. In this case, it is possible that the account and the Funds could get different prices. These price differences are likely to be minor and balance out over time. PCA has a fiduciary duty to all Clients (including the Funds) to exercise good faith and fairness in all dealings.

## Soft Dollars

### General Information

We have a fiduciary duty to our Funds and Clients to obtain best execution, on an overall basis, for any securities transactions. When determining whether we have obtained best execution, we rely on Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Safe Harbor"). A safe harbor is a provision of a statute or a regulation that reduces or eliminates a party's liability on the grounds that the party performed its actions in good faith. Legislators include safe-harbor provisions to protect legitimate or excusable violations.

This Safe Harbor is provided to an investment adviser like us that has "investment discretion" over Fund and Client accounts. It provides us protection against certain state and federal breach of fiduciary obligation claims (including ERISA claims) because we, the adviser, caused a Fund or Client to pay more than the lowest available commission when executing a securities trade in exchange for receiving investment research services and products which helped us make investment decisions of benefit to our Funds and Clients. To rely on the Safe Harbor provision, we must determine in good faith that the amount of the commissions paid is reasonable in relation to the value of the research services we have received. We take into account not only the costs for a specific transaction but also our overall responsibility to you. When we cause an account to pay more than the lowest available commission to a broker/dealer in return for research products and services, these payments are commonly referred to as "soft dollar" benefits. The broker/dealer tracks the soft dollar benefits generated to be used on our behalf. Not all trades generate soft dollar benefits, and we try to limit "soft dollar" trades whenever preferable.

For purposes of the Safe Harbor, "research services" means "advice," "analyses," and "reports" which meet the following criteria:

- The research is related to the market for securities, such as trade analytics (including analytics available through order management systems) and advice on market color and execution strategies; or
- The research constitutes market, financial, economic or similar data.

For the purposes of the Safe Harbor, "brokerage services" are those products and services that relate to the execution of a trade from the point at which the investment manager communicates with the broker/dealer for the purpose of transmitting an order for execution, through the point at which funds or securities are delivered or credited to an account under our management.

See section entitled "How We Use Soft Dollars" for additional details.

#### Prime Brokerage

We obtain certain services for the Funds, including such services as custodial, recordkeeping, clearing and related services, through what is known as a "prime brokerage" relationship. Under this relationship, a single brokerage firm that we generally select provides the following services:

- maintains custody of the Funds' assets (either directly or through clearing firms),
- provides margin credit,
- locates securities to borrow to facilitate short sales, and
- provides related services, but allows the Funds to use other brokers to execute transactions.

This relationship allows us to seek valuable research and to compare execution quality and commission rates, while maintaining only one custodial relationship. By using a brokerage firm, we also may avoid paying custodial fees that banks charge other institutional Investors. The prime broker receives interest on credit balances, margin borrowings, stock loans and brokerage commissions as compensation.

Under this arrangement, the prime broker, among other things:

- Arranges for the delivery of securities bought, sold, borrowed and lent,
- Makes and receives payments for securities,
- Maintains custody of cash and securities, and
- Provides detailed trading, portfolio and related reports.

The Funds' obligations to the prime broker (and its affiliates) may be secured by way of a first priority perfected security interest over all of the Funds' assets held in custody. The prime broker (and its affiliates) may transfer to themselves all rights, title and interest in and to those assets as collateral and may deal with, lend, dispose of, pledge or otherwise use all such collateral for their own purposes.

### How We Use Soft Dollars

We use soft dollars to purchase Street Events, Thomson One and research from sell-side brokerage firms. These are all research tools and fall within the Safe Harbor.

### Soft Dollar Procedures

During our fiscal year ending December 31, 2011, a soft dollar account was established at BTIG and the soft dollar rate was established based on the projected cost of research services. BTIG keeps an account of accumulated soft dollars and uses that account to pay soft dollar invoices following their approval by PCA.

A broker/dealer with whom we have a soft dollar arrangement may establish "credits" relating to brokerage commissions paid in the past that may be used to pay, or reimburse the broker/dealer for research or other specified expenses. In other cases, a broker/dealer may provide or pay for a service or product and suggest a higher "commission" level for future business to fully compensate the broker/dealer.

Our actual transactional business with such a broker/dealer may be less than the suggested commission level but can-and likely will-exceed that level. This may be in part because our investment activities generate aggregate commissions in excess of the aggregate suggestions from all broker/dealers providing services and products. It may also be in part because those broker/dealers may also provide superior execution and may therefore be the most appropriate for particular transactions. We will not exclude broker/dealers from transaction business simply because they have not provided research or other services.

We believe the above procedures are consistent with the requirements of the Safe Harbor to the extent the services we acquire otherwise qualify as research or brokerage services. Transactions effected on a principal basis, as most transactions with market-makers in over-the-counter securities are, with a markup or mark-down paid to the dealer, do not fall within the Safe Harbor.

### Directed Brokerage

PCA selects brokers for the Funds in its sole discretion.

SMA Clients may instruct us to execute any or all securities transactions for your account with or through one or more broker/dealers designated by you. In these cases, you are responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by the broker/dealers and you are satisfied with the terms and conditions. We have no responsibility for obtaining the best prices or any particular commission rates for transactions with or through the broker/dealer in these situations. You recognize that you may not obtain rates as low as you might otherwise obtain if we had discretion to select broker/dealers other than those chosen by you. If you would like us to cease executing transactions with or through the designated broker/dealer you must notify us in writing.



### ITEM 13: REVIEW OF ACCOUNTS

The holdings are reviewed daily to ensure that the investment thesis is intact and that the position size is appropriate based on our views of the future reward/risk based on the current price. All reviews are performed by Daniel Mendoza, Managing Member.

Investors in the Funds receive monthly letters and quarterly unaudited capital account statements. Separately managed account Clients will receive monthly letters.

### ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

We may also engage solicitors to provide Client or Investor referrals. We pay these solicitors a portion of the fees we earn for managing the Client or Investor that was referred. If you are referred by a solicitor, this practice will be disclosed in writing and we will comply with applicable rules or statutes.

### ITEM 15: CUSTODY

As the general partner for the Funds, we have custody of the Funds' assets. We have implemented the following procedures for the Funds:

- Any disbursements or allocations from the Funds require two signatures and are subject to a callback procedure; and
- The Funds are subject to an annual audit with the audited financial statements distributed to the Fund's Investors within 120 days of their fiscal year end.

If you give us authority to deduct our fees directly from your SMA, we have custody of those assets. In order to avoid additional regulatory requirements in these cases, we follow the procedures outlined in "Item 5: Fees and Compensation." You will also receive quarterly statements directly from custodian of the account that details all transactions in the account.

In no case do we accept physical custody of Client assets.

### ITEM 16: INVESTMENT DISCRETION

We manage the Funds on a discretionary basis and do not allow for any limitations to be placed on our investment authority. Our investment philosophy is summarized above, and more completely described in the Fund Documents. In order to invest in the Funds, you must:

- Review the Fund Documents we provide. This Part 2A and the Part 2B for Daniel Mendoza are included with the Fund Documents.
- Sign a copy of the Limited Partnership Agreement for the Fund.

- Complete subscription documents and sign the Subscription Agreement for the Funds. These provide information about your qualifications to invest in the Funds.

As one of the conditions of SMAs, you are required to provide discretionary authority for us to manage your assets. Discretionary authority means that you are giving us a limited power of attorney to place trades on your behalf. This limited power of attorney does not allow us to withdraw money from your account, other than advisory fees if you agree to give us that authority.

You grant us discretionary authority by completing the following items:

- Sign the Agreement, which provides a limited power of attorney for us to place trades on your behalf. Any limitations to the trading authorization will be added to this Agreement.
- Provide us with discretionary authority on the new account forms that are submitted to the broker/dealer acting as custodian for your account(s).

All SMAs are managed using the investment strategy described in the "Methods of Analysis, Investment Strategies and Risk of Loss" section above. We do not allow Clients to limit investments we make that fall within the parameters of the investment strategy described.

## ITEM 17: VOTING CLIENT SECURITIES

We vote all proxies for the Funds that, in our reasonable judgment alone, we determine affect the value of the Funds. In so doing, we generally cast proxy votes in favor of proposals that increase shareholder value and generally cast against proposals having the opposite effect. Mr. Mendoza is responsible for our decisions on proxy voting. He verifies that the proxies are voted in a prudent and diligent fashion and only after a careful evaluation of the issue presented on the ballot. You may not provide direction regarding any particular proxy solicitation.

You may provide authorization for us to vote your proxies as described above for your SMA(s). You may elect to retain the authority to vote the proxies yourself. If you retain this authority, we will provide guidance related to a specific proxy solicitation upon request.

You may request a copy of our Proxy Policies and Procedures and/or information about how a proxy was voted at any time.

## ITEM 18: FINANCIAL INFORMATION

We do not charge or solicit pre-payment of more than \$500 in fees per Client six months or more in advance. We have never filed for bankruptcy and are not aware of any financial conditions that are reasonably likely to impair our ability to meet our contractual obligations to Clients.

## ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Not applicable.